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THREE-YEAR FINANCIAL FORECAST OUTLINING THE FINANCIAL COMMITMENTS AS OF 31 DECEMBER 1997

I. PURPOSE

1. The present conference room paper has been prepared in response to paragraph 6 of Executive Board decision 98/3 on a funding strategy for the United Nations Development Programme. The Executive Board requested the Administrator to present a three-year financial forecast outlining the financial commitments as of 31 December 1997 entered into by UNDP as a result of Board decisions on country cooperation frameworks, regional and global programmes, and other policy, administrative and reform measures.

II. CORE RESOURCE PROJECTIONS

2. It may be recalled that a key element of decision 95/23 on the successor programming arrangements was the adoption for planning purposes of an initial figure of $3.3 billion for core resources for the three-year period 1997-1999 (para. 7).

3. Within six months of the decision, however, it became apparent that a $3.0 billion figure would more likely be available for the period, and the Administrator planned the release and delivery of core resources accordingly. By May 1997, projected core resources for the period 1997-1999 had considerably declined, to a level of approximately $2.4 billion. The Administrator, therefore, revised planned programme expenditure levels to conform to this further reduction. Currently, 1997-1999 core resources are projected to decline an additional $100 million, to $2.3 billion.

III. TRENDS

4. Over the past six years, there has been a significant decline in the annual level of voluntary core contributions to UNDP, from a high of $1.178 billion in 1992 to an estimated low of about $761 million in 1997. Current projections for 1998 indicate a further decline to approximately $740 million and then a modest increase to about $750 million in 1999. This situation seriously compromises the critical mass of core funding that UNDP relies upon to sustain and support quality development activities throughout the world.

5. Four key and interrelated elements figure prominently in the management and planning of core programme resources in UNDP: voluntary contributions; programme expenditures; the balance of liquid resources; and the administrative and other expenditures covered by the biennial support budget. The current paper focuses especially on the first three elements; the graph shows their actual and estimated levels for the 10-year period 1992-2001.

6. As shown in the graph, 1997 programme expenditures are expected to rise to $643 million, as compared to a low of $482 million in 1995. Paradoxically, having achieved this notable upturn in programme expenditures, the Administrator must now plan for progressive annual decreases starting in 1998, reaching a projected expenditure level of $450 million by 2000.

7. This undesirable scenario can be attributed to the projected decline in annual voluntary contributions to a level of $750 million, coupled with the planned reduction in the balance of liquid core resources by the end of 1999.[1] Although the balance of liquid core resources had reached a high of $431 million at the end of 1996, its near depletion by 1999 is being carefully planned in line with estimated contribution levels and planned programme expenditures for 1997-1999, as reflected in tables 1 and 2. The Administrator continues to manage carefully the planned commitment and delivery of the core programme resources and has ensured that well-functioning resource monitoring and control systems are in place for all programme earmarking lines.

8. The fourth element, the biennial support budget, was reviewed in detail in document DP/1997/23 at the third regular session 1997, resulting in decision 97/24. Total net commitments under the approved biennial support budgets covering 1997-1999 provide for: programme support ($295 million at the country office level and $91 million at headquarters); management and administration ($188 million), and support to United Nations operational activities

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[1] The balance of liquid core resources is the amount of investments that UNDP holds against general resources, as derived from the financial statements of the UNDP Account: it is an amount over and above the fully restricted Operational Reserve.

($218 million).[2] Additional commitments against extrabudgetary income for the period, pertaining to non-core activities, are estimated to be $152 million.

IV. IMPLICATIONS

9. As noted in paragraph 6 above, the depletion of the balance of liquid core resources by the end of 1999, together with the projected levelling of annual voluntary contributions to a level of $750 million, means that from 2000, UNDP will be able to sustain annual programme expenditures of no more than $450 million. This presents a serious challenge to the viability of UNDP core programmes, especially in terms of core resources at the country level.

10. UNDP has clearly established its capacity to programme and deliver well above this reduced programme expenditure level. Country offices continue to emphasize that programme countries demonstrate not only the need for high-quality sustainable human development programmes but also the absorptive capacity to formulate and deliver such assistance at levels well above the $643 million UNDP expects to expend in 1997. This capacity and demand is substantiated by some key indicators: actual 1997-1999 programme budget approvals as of end 1997 have already reached 95 per cent of planned expenditures for these years (see table 2, column 5); and the volume of programme pipeline ready for approval in 1998-1999, but as yet unfunded, has already reached a level of $318 million (see table 2, column 7).

11. If resources were made available to fund the $318 million pipeline (i.e., annual contributions of about $900 million for both 1998 and 1999), then UNDP could achieve programme expenditures in excess of $700 million in each of these years - at, or near, 1992-1993 levels. However, to sustain annual programme expenditures of $700 million from 2000 onwards, voluntary contributions would have to increase further to a level of $1 billion per year, to compensate for the depleted balance of liquid core resources.

12. The need for a critical mass of core programme funding in UNDP, especially at the country level, should be considered not only in the context of the above analysis but also from a perspective that looks at core and non-core resources combined. During the three-year period 1994-1996, actual core and non-core programme expenditures totalled $3.9 billion, with core representing about 40 per cent of the total. For the current three-year period, 1997-1999, total UNDP programme expenditures are presently expected to reach approximately $5.8 billion, with non-core programme expenditures projected at about $4.0 billion. (This covers cost-sharing, trust funds and UNDP-administered funds.) It should be emphasized, however, that non-core programmes are, in

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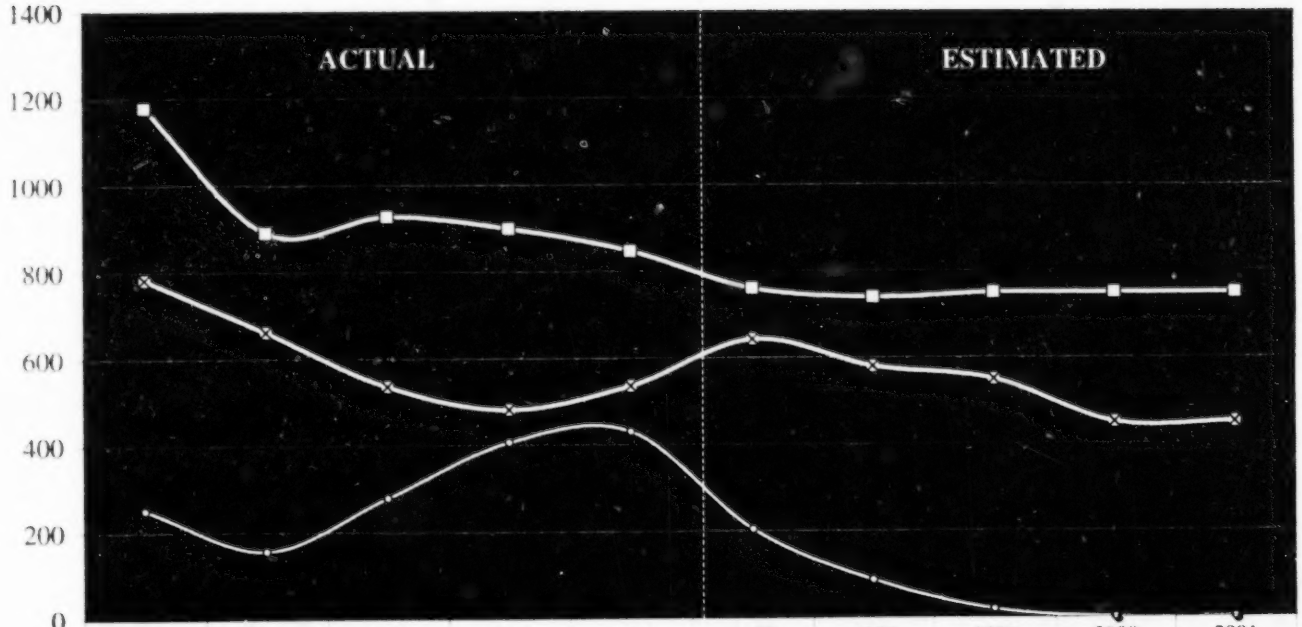
[2] These figures are based on actual commitments for 1997 and 97 per cent of approved commitments for 1998 and 1999 (to account for modest slippage) and are net of income from: government contributions towards local office costs; reimbursement of income taxes; and income to the United Nations Volunteers programme. The figure for support to United Nations operational activities includes $32 million pertaining to support to the resident coordinator, which is covered in Executive Board decision 95/23, under line 3.1.

principle, fully funded. Hence, their financing is secured from the outset and not subject to the uncertainties that affect resource planning for the core programme.

Overview of UNDP core resources
1992-2001
(millions of US dollars)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
□ Voluntary contributions	1178	891	928	900	848	761	740	750	750	750
× Programme expenditures	783	662	536	482	536	643	580	550	450	450
○ Balance of liquid core resources	251	157	279	407	431	204	86	18	0	0

Note: All 1992-1996 figures are actual. All 1997-2001 figures are estimates based on the worst case scenario that, after a further drop in voluntary contributions in 1998 to $740 million, contributions of future years will level off to $750 million per annum.

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Table 1. Overview of planned UNDP core expenditures

based on average of $750 million per annum in voluntary contributions

1997-1999

(millions of dollars)

		Planned expenditure
UNDP programmes and support activities		
A. Programmes (see table 2 for details)		
Country		1469
Intercountry		247
Other		57
	Subtotal	**1773**
B. Programme support		
Country offices		295
Headquarters		91
Agencies (see table 2 for details)		168
	Subtotal	**554**
C. Management and administration		**188**
	Total	**2515**
Support to operational activities of the United Nations		**218**
	GRAND TOTAL	**2733**

Table 2. Overview of planned UNDP core programme expenditures and commitments based on average of $750 million per annum in voluntary contributions
1997-1999
(millions of dollars)

	Original 1997-1999 earmarkings per decision 95/23 (1)	Current 1997-1999 planned expenditure (2)	Funding gap a/ (1) - (2) (3)	1997-1999 actual approvals at end 1997		1998-1999 pipeline ready for approval, of which:	
				$ (4)	% (4)/(2) (5)	Funded (2) - (4) (6)	Unfunded (7)
A. Programmes							
Country							
Lines 1.1.1 and 1.1.2 - TRAC	1650	1366	284	1312	96.0%	54	232
Line 1.1.3 - TRAC	165	103	62	100	97.1%	3	21
Subtotal	**1815**	**1469**	**346**	**1412**	**96.1%**	**57**	**253**
Intercountry							
Line 1.2 - Regional	251	148	103	148	100.0%	-	37
Line 1.3 - Global, interregional and special activities	139	99	40	94	94.9%	5	23
Subtotal	**390**	**247**	**143**	**242**	**98.0%**	**5**	**60**
Other							
Line 1.4 - Evaluation	10	6	4	6	100.0%	-	-
Line 1.5 - Special resources for TCDC activities	16	12	4	8	66.7%	4	-
Line 1.6 - Implementation (subline savings)	39	39	-	15	38.5%	24	5
Subtotal	**65**	**57**	**8**	**29**	**50.9%**	**28**	**5**
Total programmes	**2270**	**1773** b/	**497**	**1683**	**94.9%**	**90**	**318**
B. Programme support - Agencies							
Line 2.2 - United Nations system support for policy and programme development	66	57	9	17	29.8%	40	-
Line 2.3 - Technical support services from United Nations specialized agencies	53	44	9	18	40.9%	26	-
Line 1.6 - Implementation (Administrative and operational services)	60	60	-	60	100.0%	-	-
Line 2.4 - Other	-	7	(7)	7	100.0%	-	-
Total programme support - agencies	**179**	**168**	**11**	**102**	**60.7%**	**66**	**-**
Grand total	**2449**	**1941**	**508**	**1785**	**92.0%**	**156**	**318**

a/ The currently estimated 1997-1999 funding gap for the total UNDP core programme is $1.0 billion calculated as: the difference between the $3.3 billion financial envelope reflected in decision 95/23 and the $2.25 billion in currently estimated voluntary contributions based on an average of $750 million per annum, less approximately $50 million in estimated miscellaneous income.

b/ Had the $3.3 billion planning figure for 1997-1999 contained in decision 95/23 been realized, about $2.7 billion in programme expenditure could have been planned for (i.e., $2.270 billion plus $0.431 billion in available liquid core resources).